GOOD FORM: AN EMPLOYEE HANDBOOK THAT ACTUALLY *WORKS*

Inc.®

THE MAGAZINE FOR GROWING COMPANIES

15 STEPS TO BUYING THE PERFECT COMPANY

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PLUS: THE DIARY OF A FAMILY THAT BOUGHT THEIR DREAM BUSINESS—TWO YEARS LATER

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FRANK SHANNON, CORPORATE EXEC TURNED COMPANY OWNER

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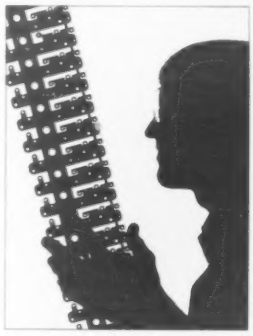

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by G. PAUL HAYNES,
OUTLINE

Notes from George Gendron, Editor-in-Chief

■■■■■■■■■

"Periodically Henry [David Thoreau] would work in the family business, and every time he did, he would make some innovation that would improve production. American pencils at the time were inferior to those imported from Europe, especially the German models. American pencil lead was fabricated with plumbago, wax, and glue, and made an irregular, scratchy line. In 1838 Henry did some research and discovered that German pencils were manufactured with Bavarian clay, which was already being imported into Massachusetts. He changed the formulation of the lead and then designed a new grinding mill to produce a fine graphite. The result was a vastly improved American pencil, and the Thoreau family business prospered."

—From *Living at the End of Time*, by John Hanson Mitchell (Houghton Mifflin, 1990)

THE NEW-BUSINESS NEWS While not all new businesses incorporate, Dun & Bradstreet's periodic reports on new incorporations are generally regarded as the best barometer of start-up activity in the United States. Since 1986 the barometer has been falling. One major reason for the decline, according to David Birch, has been the elimination of favored tax treatment for capital gains. "Why go out and risk everything you've got when your sweat equity is going to be taxed at the same rate as ordinary income?" says Birch, author of *Job Creation in America* (The Free Press, 1987) and founder and president of Cognetics, in Cambridge, Mass. "This, combined with the virtual disappearance of bank credit for new businesses, has had a chilling effect on start-ups."

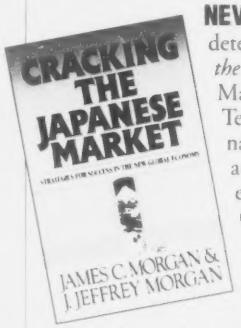
Nor has the recession produced the burst of start-up activity that many experts predicted. What the experts overlooked, Birch explains, is that national unemployment is hovering around 7%, a rate not much higher than what economists often refer to as virtual full employment. "In most parts of the country, anyone who wants a job can get one," says Birch. As a result, we're seeing many fewer "start-ups of desperation"—that is, companies begun by people who view entrepreneurship as their last resort.

On the other hand, Birch believes the current start-up lull is temporary. "I see the rates bottoming out and remaining stagnant for a year or two. Then we'll see them start to climb again." The reason? Demographics. "We know now that the prime entrepreneurial age isn't 25 or 30; it's between 40 and 50, after you've gone out and gotten some real-world experience and developed some confidence. And we're about to enter a period when that demographic pool will be larger than ever. Many entrepreneurs will be managers whose careers have peaked in established companies. Others will be women with children reentering the professional world. These are people who will be starting businesses out of inspiration, not desperation. The companies themselves may not grow as wildly as they did in the '80s. But the start-ups will be there. It's all in the math."

New Business Incorporations 1950–1990

1950	**93,092**
1955	**139,915**
1960	**182,713**
1965	**203,897**
1970	**264,209**
1975	**326,345**
1980	**533,520**
1985	**662,042**
1990	**647,655**

Source: The Dun & Bradstreet Corp.



NEVER MIND I know, I know. A few months ago I told you I detested how-to business books. That was before I read *Cracking the Japanese Market*, by James C. Morgan, CEO of Applied Materials, and his son J. Jeffrey Morgan, president of RAD Technologies (The Free Press, 1991, $24.95). This extraordinary book sets a new standard for the genre. It is clear, literate, and authoritative. Although informed with first-hand experience, it has none of the anecdotal bravado that renders most CEO-authored texts unreadable and unreliable. And you don't need to be planning a move into Japan to benefit. Part three, "Succeeding in Japan," is a mini-M.B.A. program in its own right. If you do have your sights set on the Pacific Rim, you can take heart from Jim Morgan's example as well as his advice: during a visit to *Inc.*, he told me that prior to becoming CEO of Applied Materials, in 1976, he had never set foot outside North America.

BUT HOW DO YOU GET HIM ON HIS CAR PHONE? In a recent issue of the newsletter "Developers' Insight," the editor included a note giving readers nine ways to communicate with him. The alternatives were a voice-mail number, a CompuServe ID, an MCI Mail ID, a BIX code name, a Logic Board number, a fax number, an Internet code, a Telex number, and his mailing address. I have to say, I'm impressed. I just wonder how he fits them all onto his business card. ▶

PHOTOGRAPH: MARK ALCAREZ

Hands On

SALES & MARKETING

The Eagle has landed Jack Davis a flock of new clients.

PHOTOGRAPH: MARK KATZMAN

BUSINESS-TO-BUSINESS

Using Memberships to Build a Brand

BEFORE FRANK PERDUE, PEOPLE BOUGHT GENeric chicken. Perdue's genius was in creating a brand. Jack C. Davis, regional manager for First American Title Insurance, in St. Louis, has found that you can easily do the same thing with a commodity service. For his clients, the local real-estate agents who use First American's closing and title-insurance services, Davis created a club. It's an effective and inexpensive way of differentiating his firm from all the others that agents could use.

Last December Davis mailed a postcard to St. Louis real-estate agents. On the front, over an attractive white eagle on a silver background, the card said only, "The Eagle Is Coming!"—with no indication of who sent the card. A second card, mailed a short time later, looked like the first and said, "The Eagle Is Coming *Soon*!" A third mailing, in an envelope, contained a brochure, the front of which said, "The Eagle Has Arrived!" Inside, the brochure announced First American Title's Silver Eagle Service Club and listed services and benefits that were "exclusive" to members. A letter from Davis and a reply card (postage required) that could be sent in *(Continued on next page)*

ADVERTISING

How to Fire an Agency

YOU'VE TRIED TO WORK things out with your advertising agency. But it's clearly time for a change or time to take your advertising in-house. So how do you break the bad news? We asked those who've been there—on both sides of the fence.

When's the right time to fire an ad agency? "When it's not giving you service or the creative isn't good enough," says Margaret Rodenberg, vice-president of sales and marketing at Viteq Corp., in Lanham, Md. *Recommendation:* Do the deed quickly, preferably at the end of a campaign.

How should it be done? "In person, and the guy who did the hiring should do the firing," says Gary Garkowski, VP of marketing at Chep USA, a national renter of wooden pallets in Park Ridge, N.J. *Recommendation:* Deliver the news face to face, if possible at the agency's offices; follow up in writing.

Must the agency hand over all marketing material? "Once all the bills have been paid, you're entitled to all mechanicals, TV footage, and so on. You're not entitled to creative never used, unless that's included in the contract," says Snowden McFall, president of Brightwork Advertising, in Nashua, N.H. *Recommendation:* Get what you paid for.

What kind of confidentiality can I expect? "Basically none, unless you've signed a confidentiality agreement," says Martha O'Gorman, director of communications at Jackson Hewitt Tax Service, in Virginia Beach, Va. *Recommendation:* Get it in writing.

Should I find a new agency beforehand? Yes, says Rodenberg: "It's going to take 60 to 90 days to find someone new." No, says O'Gorman: "You risk your agency firing *you*." *Recommendation*: Proceed with caution. ***—Susan Greco***

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Using memberships to build a brand

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How to build a marketing plan

RECESSION TACTIC
Sales suggestions anyone?

PROMOTIONS
Product sampling

Edited by Tom Richman

(BUSINESS-TO-BUSINESS, from page 155)
for more information accompanied the brochure.

From the 9,000 names that Davis initially mailed to, he's signed up 380 new agents, and the St. Louis First American office did as much business during the first five months of 1991 as in the first nine months of the previous year.

Is the Silver Eagle Service Club exclusive? No. Any agent who asks can join it. "Asking to join the club," says Davis, "is the same thing as asking to be my client."

Do members receive special benefits or incentives? No, nothing more than they should expect from any company handling real-estate closings. Club literature promises members such benefits as prompt, accurate, professional service; assignment to Silver Eagle personnel (the same people who handle nonmembers' business); 24-hour voice mail; and Silver Eagle's commitment to anticipating and solving problems. Members also get a pen and a newsletter subscription.

But the heart of the service-branding gimmick is the official-looking enrollment form that clients complete. It asks them a dozen questions about how they want *their* closings handled: for instance, whether they want First American to contact buyers and sellers directly or to always go through the agency, and when and how they want closing statements sent to them. "Finally, somebody is asking me what *I* want," says Joann Britton, an agent with Gundaker Better Homes and Gardens brokerage, in St. Louis, and a new First American client and club member.

That's exactly the response Davis was hoping to get. "It's mostly what we were doing before," says Davis, "but now we've packaged these services and given them a name. When I proposed it, my boss said it was the stupidest thing he'd ever heard of. I said, 'I know. That's why it'll work.' "

—T. R.

RESOURCE

How to Build a Marketing Plan

Why is Adrienne Zoble's 74-page loose-leaf workbook, *The Do-able Marketing Plan: Business Survival and Growth for the '90s*, a terrific small-business marketing guide? Because it doesn't pretend to have all the answers; just most of the questions. And because it doesn't overwhelm already overburdened CEOs with everything they *should* be doing, but shows them how to build a useful and usable marketing plan a step at a time. Even if you spend only 10 or 15 minutes a day filling in the blanks that Zoble, a marketing consultant, has organized to move you logically through the process, the exercise will still open your eyes to possibilities you've overlooked.

For the price of taking a consultant to lunch ($42.95 plus $6.75 for postage and handling), get the workbook and spend 15 minutes a day with it. You may want professional help eventually, but going through Zoble's exercises will help you know better what a consultant is talking about. To order, call 908-968-7771.

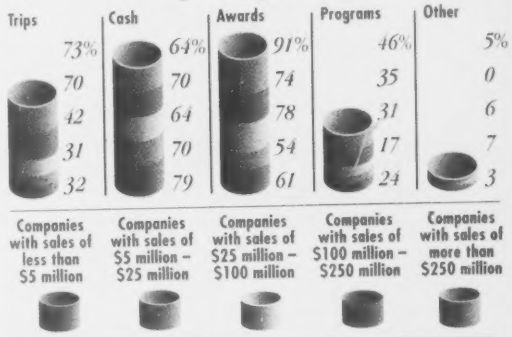
—T. R.

COMPENSATION

Rewarding the Troops

Does money speak louder than words? Cash is a popular motivator among companies large and small, but so are awards, which can range from plaques to mention in the company newsletter. The very largest corporations are more likely to sponsor trips and ongoing programs such as "Top Salesperson of the Month" or "President's Circle." One surprise: few companies make use of rewards in the Other *category, which includes such things as tickets to a game or membership in a health club.*

Percentage of Companies Using . . .



Source: "Twenty-sixth Survey of Sales Force Compensation," The Dartnell Corp., Chicago, 1990.

RECESSION TACTICS

Sales Suggestions Anyone?

BOOSTING SALES IS EVerybody's job, even for those who aren't salespeople, at Telecom Library, headquartered in New York City. This past winter cofounder Gerry Friesen issued a memo that was a shocker: layoffs were inevitable at the 60-employee publishing company, it said, unless everyone pitched in with ideas—not for cost cutting but for gaining more sales.

It wasn't only the threat of layoffs that got people's attention, but also "the opportunity for them to work directly with me and show their stuff," says Friesen. He listened and asked questions. Then he told employees to flesh out their ideas or explained why they weren't feasible. For promising suggestions, he would always ask, "Do you have time to do this?" If employees said yes, they got the go-ahead.

Editorial employees repackaged a dated but popular book to rejuvenate its sales. Sales staffers exchanged their 50 most-difficult-to-close accounts among themselves. The company got more mileage out of its editorial mailing list by using it to pull together a conference. Six months later, though ad sales are still off, there have been no layoffs, revenues are up, and the company is profitable.

—Teri Lammers ▶

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If you saw a lost child you'd stop and help. Through the Childreach Sponsorship program of PLAN International USA (formerly Foster Parents Plan) you can do just that. You can choose the child you'd like to sponsor overseas. You'll receive pictures of the child, personal reports and letters. You'll see that your money is going into programs which help your sponsored child, his family and community help themselves. For $22 a month (only 72¢ a day), you can achieve a small moral victory! Please don't wait. Become a Childreach Sponsor.

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PLAN INTERNATIONAL USA

LA81

PROMOTIONS

Product Sampling

Sampling sells, says Biltekoff.

IF THE FLAVOR, FEEL, SMELL, or performance of your product is its best selling point, exploit it. "I can *tell* people all day how good this stuff tastes," says Joanne Biltekoff about Elan frozen-yogurt products, "or I can get them to taste it."

Biltekoff, who cofounded Elan with her husband, James, developed the dessert product from scratch in 1986. Although they lacked the capital for advertising blitzes and direct mail, they built Elan to be the leading premium brand in some regions, primarily by using in-store demonstrations to get people to try it.

Product sampling—whether in a retail store, at a trade show, or at some other gathering of potential buyers—is low-tech, cheap, and cost-effective. It's especially useful for small companies that don't have the dollars big companies use to introduce new products. How cheap?

You'll pay a demonstration company about $100 a day to supply the demonstrator and card table, and in a six-hour shift—most supermarket demos take place between 11 a.m. and 5 p.m.—your product will get into the hands or mouths of about 500 people. That's about 20¢ per person. Add the cost of the product consumed, the redemption cost of the distributed coupons, and the cost of training the demonstrators, to bring the total average cost up to about 30¢ per sample. Even mailing samples, which lacks the personal touch, costs more. If some easily demonstrated characteristic is the best argument for buying your product, then sampling, done right, is a great way to make your case.

To find a quality demonstration firm, keep an eye on the local supermarkets. When you spot demonstrators who are good at their jobs, ask whom they work for. Or call National Association of Demonstrating Companies at 800-338-6232 and ask for a roster of demo firms operating in different market areas.

Doing it right means—

• **Sampling to the right prospects.** For a grocery product, not every store, even in the same chain, may be right. Elan frozen yogurt costs more than $2 a pint. "We're not going to sell a whole lot to the mac-and-cheese crowd," says Biltekoff, who talks to chain-store buyers about the demographics of different stores' markets before deciding which stores in the chain to use for demos.

• **Using personable, well-trained demonstrators.** A badly trained or poorly attired demonstrator can do more harm than good. The demo firm you hire will do some training of the part-timers they employ. Or, as Elan does, you can train demonstrators yourself. Elan also supplies uniforms, and it has replaced the customary card table with a stand that looks like an Elan yogurt carton.

• **Positioning your demo well.** Some people want demonstrators close to the store entrance. Biltekoff prefers hers near the frozen yogurt. If you have to be at one end of the shelf or case that holds your product, she says, make sure it's the upstream end. If shoppers have to fight cart traffic to get back to the spot where they can find the stuff, some just won't bother.

Elan, in Buffalo, is now selling in 20 states and has graduated to a more balanced marketing strategy. Even so, Elan uses TV and print ads primarily to support its demonstration program, which remains its flagship marketing medium. —*T. R.*

PHOTOGRAPH: RICHARD MITCHELL

MANAGING PEOPLE

Glassblower Livesay evaluates coworkers twice a year.

MEASURING PERFORMANCE

Making Peer Reviews Work

WHO BETTER APPRECIATES THE QUALITY OF YOUR work: your supervisor or the folks who toil beside you all day long? Bosses rarely win that contest. Yet they're usually the ones charged with assessing workers' performance.

Not at YSI, a Yellow Springs, Ohio, instrumentation maker. As part of a bottom-to-top revamping of its corporate structure and philosophy, $28-million YSI is instituting twice-a-year peer reviews in all work centers in its production area. The appraisals are the most important feedback an employee gets. Leaders—previously known as supervisors—may be asked to grade an individual, too, but their input holds no more weight than any other team member's.

Peer appraisals are part of a management trend toward empowering workers. At YSI, it seems to be working. Lynn Livesay, a glassblower who's worked there for 14 years, says: "What we say means something. Years ago you could go and complain, and nothing was done about it."

Still, it's hard to rub elbows all day long with someone you've criticized the day before. Here are some tips from YSI employees on how to make peer appraisals work:

• **Construct logical peer groups.** Whether or not your company is organized around teams, take care that every member of a peer group relies on the other members to achieve a goal. A colleague's appraisal won't be meaningful if she doesn't really care how well another member of the group does his job. *(Continued on page 163)*

LEGAL BRIEFS

When Company Owners D-I-V-O-R-C-E

IT STARTS OUT SO beautifully, the business born of matrimonial harmony. But when divorce intervenes, there's nothing messier. "The rules of an ordinary partnership will not apply in divorce," warns Helene Brezinsky, a partner at Rosenman & Colin, in New York City.

The courts recognize that the dynamic between married business owners is more complex than the one between unrelated partners. So each case is resolved differently—in a way that may not correspond to the official ownership position of each spouse. Here are four common practices in jointly owned husband-and-wife businesses and how they can backfire in a split-up:

1. Cosigning debt. Naturally, it means you're both responsible for paying the loan back. In a divorce or a business failure, however, one partner may decide to declare bankruptcy, which sticks the other one with the entire IOU.

2. Departing from the norm. Couple-owned companies are rife with activities that don't necessarily make business sense: deferring salaries, making gifts of stock shares, letting tax considerations drive business decisions. If the business record isn't clean or doesn't exist, it's much harder to persuade a judge that the ownership arrangement on paper should determine who gets the spoils.

3. Depending on prenuptial agreements. Recognize the limits of such agreements in many states. Over time each spouse's contributions to the company may change radically, or the value of the business itself may vary widely. Unless your prenuptial agreement has been recently reviewed by your lawyers, it may not be ironclad.

4. Subordinating one partner's future to another's. An extreme example: the photographer whose husband decides to manage her. Here the wife *is* the business, and the husband is extremely vulnerable in a breakup. *—E. E. S.*

IN THIS SECTION

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Making peer reviews work

LEGAL BRIEFS
When company owners D-I-V-O-R-C-E

WORK STYLE
The new work force

MOTIVATION
Jump-starting employee confidence

RESOURCE
My old favorite: the New England pantomime test

Edited by Ellyn E. Spragins

PHOTOGRAPH: ANDY SNOW

(MEASURING PERFORMANCE, from page 161)

• **Encourage interchangeable jobs.** Employees in YSI's work centers cross-train themselves to be able to handle any one of several jobs a team must execute. "Everyone is conversant with the same things, so you've got a really accurate view of other people's work," explains Ryan Dimmick, who assembles electronic temperature compensators.

• **Go slow.** Workers who are used to top-down appraisals mistrust this kind of initiative. "It was a mess when it first started here," says Livesay. One step to take in preparation for peer reviews: first introduce group appraisals to get people to compare their work with others' performance.

• **Give workers the tools to succeed.** YSI has applied liberal doses of training in interpersonal skills and problem solving to acclimate production workers to their new duties. The goal is for peer appraisal to become a continual process, not just a twice-a-year exercise.

• **Let workers control the consequences.** Give teams the power to hire and fire coworkers. It won't be taken lightly. Glassblower Livesay says morale plunged in her work center when it became clear that one of their two hires was not working out. But after taking every step possible to help the new member improve, the team knew they couldn't tolerate her performance—or pass the buck. "We didn't want her to go into another department. You can't do that to someone else," Livesay explains.

• **Know when to give up.** Not everyone is going to adjust to peer appraisal and its implicit doctrine: self-management. For months one work center focused on a member who was very uncomfortable about not being told what to do. "It took so much energy that we were beginning to lose our edge on the work itself," recalls one of the center's workers. The team member is going to get a new job in a more structured part of the company. *—E. E. S.*

WORK STYLE

The New Work Force

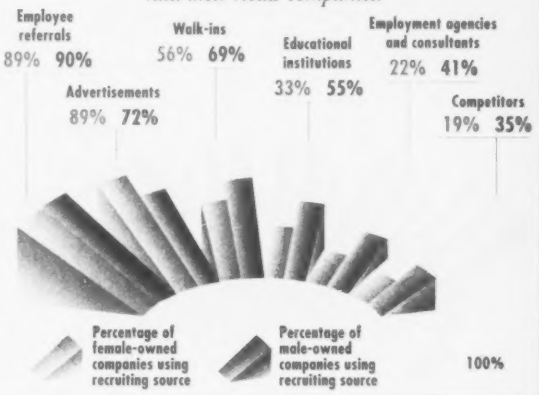
In *The Age of Unreason* (Harvard Business School Press, 1990), Charles Handy says that by the start of the 21st century the "core worker will have a harder but shorter job, with more people leaving full-time employment in their late forties or early fifties. . . ." He goes on: "Most people will find their place outside the organization, selling their time or their services into it.

". . . For them the pattern of hours will be different. They may find themselves working 25 hours a week for 45 weeks of the year (part-time) or 45 hours a week for 25 weeks a year (temporary). In either case they will need to keep on working as long as they can . . . because they will not be able to accumulate the savings through pension schemes or other mechanisms to live on."

RECRUITING

Boys Will Be Boys

Advertisements and employee referrals are still the methods of choice for recruiting used by both male and female chief executives. But male CEOs, this survey suggests, are more likely than their female counterparts to use headhunters and raid their rivals' companies.



Source: "Female and Male Entrepreneurs: Their Personnel Practices and Influence on Employee Satisfaction," a study of small-business owners. Society for Human Resource Management Foundation, Alexandria, Va., 1990.

MOTIVATION

Jump-starting Employee Confidence

IT'S ONE THING TO REbuild your organization around employee participation. It's another to make your people like the new corporate style. In 1988 Shepard Poorman's overhaul was stuck. Open communication among all workers was the goal. But employees at the Indianapolis printing company didn't like to speak out, and supervisors didn't enjoy hearing underlings' opinions.

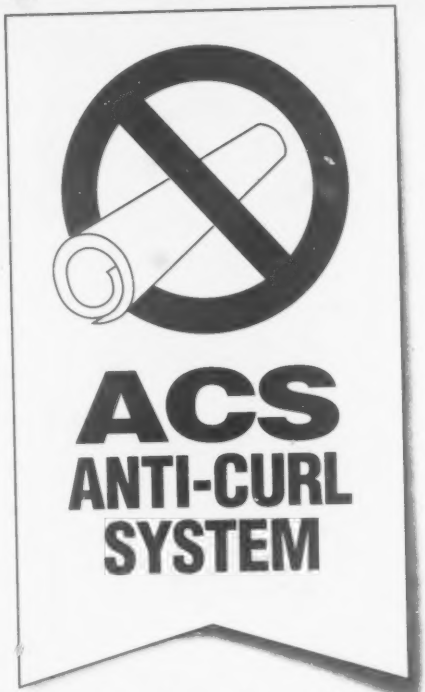
Drawing on his memory of a college psychology course, CEO Bob Poorman Jr. suspected the solution lay in bolstering his employees' self-esteem. Poorman hired the University of Indianapolis's training department to develop a class that would teach workers how to nurture relationships.

The program focuses on three fundamental topics—the self, relationships, and teamwork skills—and meets weekly. The most popular feature of the 18-week lecture series: in-class exercises that bring psychological theory to life. The routines vary from humorous exercises on hidden agendas to doing the hokey pokey in class to loosen people up. But such unlikely routines often trigger the most arresting insights. After being given a group assignment to draw a coat of arms for the company, recalls Don Curtis, formerly vice-president of quality: "I was so involved in drawing my vision of the perfect coat of arms that I forgot to include the group in deciding what

(Continued on next page)

ILLUSTRATION: SERGIO BARADAT. CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

No More Curled Faxes!



Brother introduces the revolutionary ACS Series of affordable fax machines that produce flat, easy-to-read faxes with standard fax paper!

If you've had it with those hard to read, hard to handle and even harder to copy curled faxes, make sure your next fax machine is one of Brother's new ACS models. Why?

Well first of all, our unique ACS Anti-Curl System eliminates that annoying fax curl so your faxes come out perfectly flat, so that they're easy to read, copy and handle. And, all ACS models use standard (thermal) fax paper.

But flat faxes are only the beginning because these models are packed with the in-demand features you want. Like "smoothing", which enhances image quality so your faxes will be easier to read. Like time-saving auto document feeders and auto-cutters, memory dial, page memory, fax/tel switch, TAD interface and their price is every bit as appealing as their features.

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MANAGING PEOPLE

(MOTIVATION, from page 163)
should go into the drawing. It drove home the point about teamwork."

So far, almost half of Poorman's 330 employees have entered or completed the course. Their communication skills have improved so much that the company's management now lets customers speak directly to on-line workers about orders, instead of filtering inquiries through the sales department. More important, Poorman's work force seems to be gaining equanimity. Says benefits administrator Susan Rearick: "People accept criticism better—they see it as an insight."

—Teri Lammers

RESOURCE

My Old Favorite: The New England Pantomime Test

ANYONE SERIOUSLY EXPLORing the use of tests to assess prospective or current employees' aptitudes and skills should take a look at *The Tenth Mental Measurements Yearbook*, edited by Jane Close Conoley and Jack J. Kramer, which contains 569 critical reviews of 396 tests. While you probably won't want to select a test solely on the basis of the yearbook's critiques, spending time with this book is probably the fastest way to develop a context for understanding the broad range of tests in existence and what they try to measure.

Published by the Buros Institute of Mental Measurements, the yearbook describes and evaluates all manner of tests: vocational, personality, intelligence, mathematics, and 12 other categories. Each description includes the test's purpose, cost, and authors. In the back of the yearbook, a publishers index provides addresses. The book is available through The University of Nebraska Press (402-472-3581) for a pricey $125, so consider looking for it at the nearest university or urban library. *—E. E. S.*

BANKING & CAPITAL

Hermann's search for a new lender ended with MetLife.

LONG-TERM MONEY

Insurance Companies Move into Smaller Deals

MOST GIANT LIFE-INSURANCE COMPANIES STILL turn up their noses at investments of less than $2 million. Given the due diligence and paperwork involved, bigger deals generally offer a more efficient way of putting billions of dollars to work. But some companies are finding that not all insurance companies toe that line completely. C. E. Niehoff Co., of Evanston, Ill., is a case in point.

A manufacturer of heavy-duty alternators, Niehoff was under pressure to refinance a five-year loan against a production facility. The existing lender was willing to rewrite the loan when the old one expired, in May—but only for about $750,000 ($200,000 less than the original amount). So Ralph J. Hermann, the vice-president for finance, approached other lenders. The company's own bank wasn't doing real-estate deals, and banks that were doing them wanted Niehoff to shift its entire banking relationship to them. "We had a good relationship with our lender," says Hermann, "so I didn't want to do that."

After several frustrating weeks, the company's bank introduced Hermann to someone on the corporate-lending side of Metropolitan Life Insurance Co. By the end of April he had what he was looking for: a new five-year loan (amortized over 20 years) at a fixed rate of 10.25% on the building. The loan, moreover, was for $1.2 million, enabling the company to pay *(Continued on next page)*

PROTOCOL

What Bankers Like to Know

ASK BANKERS WHAT unsettles them most and you'll get the same basic song and dance. Surprises, surprises, how they *hate* surprises. But what do they *really* want to know? We asked some experienced lenders what unnerves them:

Scott Blatterman, executive vice-president, Manufacturers Hanover Trust, New York City: "Don't tell us on December 15 that you'll earn $1 million, and then call in February to say, 'Actually, we lost $2 million.' That's when we say, 'How can this guy run a company?' "

Deryl K. Schuster, CEO, Business Banc of America, Wichita: "Say a guy underbids a contract. Something happens—bad weather, a regulatory problem—and now he's losing money. I want to hear about it early, because there's a chance we're going to have to help him through. What's he planning to do to get through this? What kind of support will he need from the bank? And how's he going to avoid problems like this in the future?"

Norman McClave, executive vice-president, First Fidelity Bancorp., Newark, N.J.: "Even when something happens that's good, like a big new order, we like to hear about it. It may or may not have an impact on borrowing. I don't like to find out about something affecting a customer in the morning paper. If the chairman of the bank mentions something, a banker wants to be able to say, 'Charlie called me about that yesterday, and here's how they're handling it.' "

Martha Hayes, vice-president, First Union National Bank, Charlotte, N.C.: "I like to hear about changes in the product line and in how the company is managed. If the VP of operations quits, we want to know who's filling in and what the plans are to replace the person. If you're adding a new product or a new plant, we want to hear. You may be financing it out-of-pocket today, but someday you may ask us for help."

—B. G. P. and Susan Greco

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Edited by Bruce G. Posner

PHOTOGRAPH: ANDY GOODWIN

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down $450,000 on its floating-rate credit lines. Total fees came to 2% of the loan, says Hermann. "We were very pleased."

While the lion's share of Metropolitan Life's $130 billion in assets is invested in big companies, a small—and growing—portion of its lending is to small businesses, says Dean Bergquist, MetLife Capital's Chicago-based vice-president. Currently, he says, a $5-billion chunk of the portfolio (managed out of Bellevue, Wash.) is made up of loans to companies with sales as low as $4 million.

Many lenders, of course, have been ratcheting up their underwriting standards lately, but Bergquist says MetLife Capital's criteria have remained basically the same. It wants companies to have modest leverage, a three- to five-year history of profitability, and a clear ability to repay the loan from cash flow as opposed to collateral. "We're less concerned about what a company wants to borrow for," explains Bergquist, "than its ability to repay."

Other life-insurance companies—both regional and national—also operate in the midsize-company market from time to time. To find out if a company is doing smaller deals, contact the company's home office and ask for "corporate investments" or "capital markets." Or, like Hermann, get a referral from a banker. *—B. G. P.*

RESOURCE

More Than Names and Numbers

MOST DIRECTORIES OF financing sources are long on names and phone numbers but short on information that tells you what kinds of deals they're actually doing. But *Fleet's Guide: Income Property Financing Sourcebook* scores well on both counts. The guide, founded in 1988, is published by a pair of former commercial-mortgage brokers. The latest edition has detailed information on 357 lenders and investors—commercial banks, thrifts, pension funds, credit companies, REITs (real-estate investment trusts), and insurance companies—with appetites for commercial and multifamily real estate.

The most recent sourcebook, which is about 500 pages long, devotes a full page to each lender/investor. It tells, among other things, the types of projects the lender or investor is doing, its geographic requirements, and such underwriting criteria as whether its loans have prepayment penalties. The guide is released twice a year, with two interim supplements.

Over and above the pages of listings, *Fleet's Guide* devotes more than 100 pages to cross-referencing indexes, allowing you to search for sources with a particular set of interests. A year's subscription (including both volumes, the updates, and a Small Business Administration directory) goes for $285. To order, call 800-336-3246; for an extra $95 a year, you can buy a quarterly computer-diskette subscription that helps you sort through the data even faster. *—B. G. P.*

EQUITY

Matchmaking by Computer

Before the first electronic matchmaking service between entrepreneurs and investors was booted up, in 1984, folks who needed $100,000 to $1 million to finance their businesses scrambled for it themselves. But over the past several years, a host of computer-based networks have emerged to make the search process more efficient.

Typically, networks charge fees both to money seekers and to investors. Investors check off the sorts of deals they're interested in considering, and the computer does the sorting. "If the potential for creating value is there, people should have no trouble getting introductions," says William E. Wetzel Jr., founder of the first network at MIT. "Whether they're able to sell the investors at that point is really up to them."

Network	Area served	Listing fees: Companies	Listing fees: Investors
Georgia Capital Network Atlanta 404-894-3575	Georgia	$75/year	None
Kentucky Investment Capital Network Frankfort, Ky. 502-564-4252	Kentucky	None	None
Mid-Atlantic Investment Network College Park, Md. 301-405-2144	Mostly mid-Atlantic	$35/year	$300/year
Northwest Capital Network Portland, Ore. 503-294-0643	Oregon	$100/year	$225/year
Pacific Venture Capital Network Irvine, Calif. 714-856-8366	Mostly California	$200/ 6 months	$200/year
Private Investor Network Aiken, S.C. 803-648-6851	South Carolina	$100/year	$200
Tennessee Venture Capital Network Murfreesboro, Tenn. 615-898-2745	Tennessee	$100/ 6 months	None
Texas Capital Network Austin 512-794-9398	Texas	$100/ 6 months	$200/year
Venture Capital Network at MIT Cambridge, Mass. 617-253-7163	Mostly Northeast	$250/year	$250/year
Venture Capital Network of Minnesota St. Paul, Minn. 612-223-8663	Mostly Minnesota	$100/ 6 months	$100/ 6 months
Washington Investment Network Seattle 206-464-6282	Washington State	None	None

—Researched by Christopher Caggiano

DEBT

Loan-Guarantee Options

IF YOU'RE LOOKING FOR a new-business loan, don't be surprised when the banker leans across the desk and asks for a personal guarantee as one form of collateral. But before you sign your name or pledge personal assets, understand that all guarantees aren't alike—and that the exact wording is sometimes negotiable, though only at the time the loan agreement is signed. Here are some of the formats owner guarantees take:

• **Unlimited guarantee.** With an unlimited guarantee, the guarantor stands behind the entire loan or credit line. That means if the business defaults on, say a $500,000 loan pack-

(Continued on page 168)

If you're a Jack Daniel's drinker we'd like to hear from you. How about dropping us a line?

FROM THE LOOK OF THINGS in Jack Daniel's Hollow, there's a touch of autumn in the air.

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Placed in the National Register of Historic Places by the United States Government.

(DEBT, from page 166)

age, you'll be expected to personally make good on any deficiencies. You're personally on the hook until the debt is paid. Bankers push for these guarantees in the belief that the more exposed you are, the more focused you'll be about meeting the loan's terms.

• **Limited guarantee.** A limited guarantee is less encompassing than a complete guarantee, making it more palatable to the borrower (and less secure to the lender). The requirements can be stiff, however. A limited guarantee usually works like this: The business gets a loan for, say, $500,000, but the bank agrees to limit the personal guarantee to $250,000. If the business can't meet loan payments, the bank, knowing it's not fully protected, will try to get part of the loan repaid by collecting receivables and selling assets. If, after the guarantor pays the $250,000, there's still a shortfall, the bank will take a hit, unless the agreement specifies other pieces of collateral.

• **Joint-and-several guarantee.** Say it's not just one person standing behind the $500,000 loan but two or more, all individuals of means. You'd think that the lender would be satisfied if each person guaranteed $250,000, but don't count on it. Many banks will try to set the loan up as "joint and several," which means they'll ask each of you to stand behind the full amount of the loan. You can try talking them out of it, but whether or not they back off will hinge on the quality of your other collateral and your overall financial strength.

• **Time guarantee.** Most guarantees are written to remain in effect until the loan is fully repaid. But some agreements spell out conditions under which personal guarantees can be eased or lifted. If, for example, the company has managed to meet specified performance standards for two or three years, the bank might relax its requirements or even tear up the guarantee altogether. Some but not all banks will commit to that in writing at the time the loan is made. *—B. G. P.*

FINANCIAL STRATEGIES

An earn-out agreement helped Klein's deal fly.

ACQUISITIONS

Using Earn-out Agreements

DURING THE MID-1980S, WHEN BRAJDAS, A WOODland Hills, Calif., holding company, was negotiating to purchase Cypress Electronics, a distributor of electronic components, a typical quandary emerged: "There was a fairly significant difference between what the would-be acquirer believed Cypress was worth—based on its track record—and what the sellers believed it was worth—based on what they saw as its growth potential," recalls Allan Klein, Brajdas's chief financial officer.

But the deal didn't fall apart. Instead, the owners of Brajdas and Cypress created an earn-out agreement that would reward two of Cypress's three original owners—on top of the sales price—if the company performed as well after the sale as they expected.

Generally, earn-outs are structured only in deals in which the original owners will stay with the company and thus can have some impact on future performance.

(Continued on page 171)

INSURANCE

Shopping for Carriers

HOW OFTEN SHOULD A company put its insurance business up for competitive bids? Shop around too frequently and you risk undermining your credibility as a prospective long-term customer; too seldom and you risk paying more for insurance coverage than you would if you'd just looked a little harder.

Ivor Bamberger, chief financial officer of Beber Silverstein & Partners Advertising, a Coral Gables, Fla., ad agency, keeps his policy costs under control without alienating insurance carriers, by going to market for insurance bids every three years. Working through an insurance broker, Bamberger solicits quotes from at least five carriers.

"Anything less might give us a distorted view of what the marketplace has to offer," he warns. "If you just take two or three bids, insurance brokers won't thoroughly scan the market for you—they will just bring you quotes from the carriers they do the most business with. Requiring five or more forces them to broaden the search." Using that technique as part of his insurance-management strategy, he has been able to keep his health-insurance costs from skyrocketing. Increases have been held to less than 12% a year.

Besides looking for competitive prices, Bamberger also requires brokers to evaluate the financial health of prospective carriers. "We want to make certain our bids come from well-established insurers who are going to be around to fulfill the terms of their contracts with us," he says.

—J. A. F.

RESOURCE

Document Basics

Many business documents seem largely incomprehensible to everyone except the lawyers who drew them up. But here's a good introduction to the rules and reasoning behind standard partnership and incorporation documents: *Organizational Documents: A Guide for Partnerships and Professional Corporations,* by Mark F. Murray. A lawyer with expertise in business accounting and corporate-law issues, Murray writes about business management for American Institute of Certified Public Accountants. Buy-sell agreements, employment contracts, and partnership agreements are among the documents discussed here in a no-nonsense, easily understood style.

Published by AICPA, this 124-page book costs $25. The book is also available on either WordPerfect or ASCII at $40 per disk. To order call AICPA at 800-334-6961.

—J. A. F.

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Edited by Jill Andresky Fraser

PHOTOGRAPH: GARY MOSS

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Most earn-out clauses are tied to sales and earnings performance over a three-to-five-year period—generally the same time frame as any employment contracts negotiated with former management.

Earn-outs can be structured in any number of ways, depending on the priorities of sellers and buyers. But with Brajdas, which was interested in jump-starting Cypress into fast growth, Cypress's payout was pegged to revenue and profit growth over a three-year period, with additional rewards built in if the original owners achieved certain targets, which they did. "We wound up paying an additional $1 million on top of the $4-million purchase price," recalls Klein. "But we're not complaining. The earn-out agreement gave us peace of mind, because we knew we'd wind up paying the money only if the company's performance was good enough to warrant it."

•

A FEW CAVEATS FOR COMPANIES CONSIDERING ADDING EARN-OUT CLAUSES TO SALES AGREEMENTS:

Keep financial formulas simple.

"I've seen some arrangements that are so complicated that they wind up backfiring because no one can figure out exactly what they're supposed to accomplish and how it will affect their payout," warns Robert Untracht, a partner at the Century City, Calif., office of Ernst & Young. Include in the design stages of the earn-out accountants, lawyers, and all executives involved.

Avoid long-term-growth disincentives.

"You've got to make certain the earn-out and its resulting pressure for short-term results don't discourage former owners from doing things like spending money on research and development, diversifying, or investing corporate funds in other ways that will produce results only over the long term," warns Klein. Brajdas skirted that risk by guaranteeing Cypress's former owners that "new acquisitions or other long-term investments would be considered as separate from the earn-out agreement—so that they wouldn't reduce the risk of future payouts." You might also consider using an outside board or financial consultant to evaluate all management decisions to make certain that long-term goals remain important.

Weigh the costs versus the rewards.

"Earn-outs may produce exactly the wrong kind of results for you, depending on the type of company you're purchasing and your own financial goals," warns Untracht. "If it's a fast-growing business, an acquiring company may want or need to plow all the cash back into growth—and may not actually care about short-term performance." In such cases, it makes better sense simply to negotiate a purchase price that satisfies all parties. *—J. A. F.*

BENEFITS

Building a Successful 401(k)

FOR THE GROWING NUMber of small companies starting 401(k)s, careful follow-up attention can be every bit as important as good plan design. That's because companies that fail to aggressively recruit and retain 401(k) participants may run afoul of IRS regulations against "top-heavy" executive-skewed plans—and thus, risk losing tax benefits for employees.

Here's how Aerodyne Controls, a Ronkonkoma, N.Y., manufacturer of aerospace products with 75 employees, has succeeded in attracting widespread participation for its 10-year-old 401(k) plan:

• **Personalized updates.** "We used to send participants a report once a year on how much their accounts contained and how much they were earning in interest, but then decided the information was so positive, we should circulate it every six months," explains Robert Tripodi, one of Aerodyne's owners. Participants are frequently surprised by how much their accounts contain, since the company matches 50% of each employee's income-tax-free contribution.

• **Extended vesting schedules.** Employees are encouraged to remain in the plan by a vesting schedule that kicks in slowly: they are vested 25% after three years, and 100% only after five years.

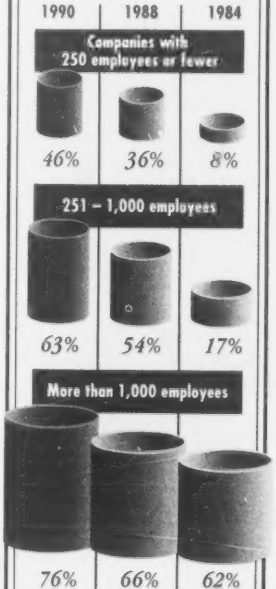
• **Follow-up interviews from top management.** When employees ask to pull out of the 401(k), Tripodi meets with them. "I tell them they're missing out on saving money on taxes and preparing for retirement," he says. "I show them the financial costs and benefits so clearly that they can see the benefits of perhaps *reducing* their contribution, but the great costs of withdrawing entirely." That coincides with Aerodyne's interests, since withdrawals, not contribution reductions, run the risk of causing IRS problems. *—J. A. F.*

▼ ▼ ▼ ▼ ▼

The Growth of 401(k) Plans

Businesses with fewer than 250 employees now represent the fastest-growing market segment. Their biggest hassle? Record keeping.

Percentage of Companies That Had 401(k) Plans



Source: Massachusetts Mutual Life Insurance Co., Springfield, Mass., 1991.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

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FINANCIAL STRATEGIES

WORKERS' COMP

A Strategy for Cost-cutting

WORKERS' COMPENSATION costs can be a heavy burden for any manufacturing company. At Preferred, a $7.7-million industrial roofing and painting contractor based in Fort Wayne, Ind., they've become of astronomical importance. At $300,000 yearly, workers' comp fees amount to nearly one-sixth of the company's total $1.9-million operating budget.

For CEO Craig Hartman, controlling workers' comp costs is a management priority. One of Preferred's most effective cost-control strategies to date: self-insuring, through which the company pays all claims of $250 or less.

Since in Indiana, state-mandated workers' comp fees are pegged to the *number* as well as the size of claims, simply decreasing filing frequency should cut Preferred's annual fees by about 10%, chief financial officer Lisa Roberts estimates—a savings far outweighing the expense of paying minor bills. Of course, there's plenty of room for maneuvering: the $250 cap can be raised or lowered at any point if Roberts and Hartman feel it's either too costly or too low to reduce filings.

With an expensive history of fraudulent claims by some employees, Preferred has also put law firms on retainer in Cleveland, where the company operates one of its contracting facilities, to investigate and possibly litigate every significant workers' comp claim of a suspicious nature.

The company has also begun to investigate the medical and employment backgrounds of potential hires, to screen out fraudulent claims before they happen. "Now that we're taking an aggressive stance," Hartman says, "we believe we'll eventually be able to reduce operating costs by 10% through our workers' comp savings alone."

—J. A. F.

IN THE OFFICE

OSHA's experts helped McCoy comply with safety regs.

ENVIRONMENT

OSHA Can You See?

MOST BUSINESSES KEEP GOVERNMENT AT A DISTance. But when the government increases its industrial-fine schedule sevenfold, as the federal Occupational Safety and Health Administration recently did, that detachment is worth rethinking. Through outreach programs charged with helping employers comply with often complicated safety and environmental laws, companies can tap government experts for free on-site review of potentially hazardous conditions for which a company could be penalized. The procedure is administered either by state OSHA offices or by Labor Department affiliates. (Twenty-three states have their own industrial-health-and-safety agencies.)

"We ask them to review our programs and make recommendations," says Shawn McCoy, safety specialist at $73-million Sun Sportswear, in Kent, Wash. Sun recently called in an expert from its state office (WISHA) to teach management and employees about its new accident-reporting process. "They help you comply without fining you," says McCoy.

Invited observers cannot themselves levy fines. If a serious violation is uncovered, the company is given plenty of time to correct the problem. ***—Susan Greco***

WORKPLACE

Day Care for All Ages

MAYBE STRIDE RITE can't spell right, but it sure does set the pace for community responsibility. The Cambridge, Mass., shoe manufacturer pioneered on-site day-care centers for youngsters, 20 years ago. This year business's first employer-supported day-care center to serve *oldsters* celebrated its first anniversary.

At a cost of some $800,000, Stride Rite recently gutted 8,500 square feet of corporate-office space and converted it into classrooms and activity areas containing both elder- and child-size furniture.

Workers with family members in day care contribute to the center on a sliding scale, which is pegged to household income. To bridge the gap, the Stride Rite Charitable Foundation contributes capital to the operating budget, and the company itself supplies in-kind support such as bookkeeping and administrative and legal services. Liability insurance is tacked onto the corporation's own policy.

"Worker loyalty to the company is tremendous," asserts director of Stride Rite Work/Family Programs Karen Leibold, who sees ranks of siblings from the same families in attendance year after year, indicating that a large number of employees are staying on the job.

On-site day care is no longer the province of larger corporations, Leibold believes; even companies with few employees can establish a center, tapping intergenerational neighbors to fill it. Indeed, Stride Rite's own facility is only half filled by employee kin; the remainder—young and old—come from the community at large.

Stride Rite Work/Family Programs offers an informational packet on the subject. Call 617-491-8800, extension 7626. ***—R. A. M.***

RESOURCE

How to Tap OSHA for Free

OSHA's Washington, D.C., office does not handle requests for free consultation (see "Environment," above). Arrangements must be made regionally, where the site in question is located. To determine the appropriate regional agency, call the OSHA office listed in the federal pages of your local phone book. Also available: *OSHA Handbook for Small Business* (202-523-7266), which lists free OSHA-sponsored consultants. *—S. G.*

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OFFICE EQUIPMENT
Small is useful

Edited by Robert A. Mamis

PHOTOGRAPH: KIETH BROFSKY

OFFICE SERVICES

Specialty Delivery

WHEN SEQUENT COMPUTER Systems, a manufacturer in Beaverton, Ore., needs to get an item to a California customer the next day, it often entrusts the job to little Jet Delivery Services, whose fleet roams the coast between Vancouver and San Jose. One reason, says traffic manager Randy Merrill: last year Sequent saved $180,000 by choosing a local trucker over a mammoth air freighter.

A few more reasons: Jet has air-cushioned vehicles and toting equipment to handle heavy but delicate high-tech stuff. Jet phones ahead to let customers know their shipments are about to arrive. Jet temporarily stores shipments customers aren't quite ready for. Jet picks up later than Fed Ex.

And, like most regionals, Jet boasts an on-time percentage in the high 90s, close to Fed Ex's. Then why don't companies like Sequent expand their use of local deliverers, tapping an informal network of ground couriers capable of relaying one another's goods around the country? For one thing, regionals tend to focus on metropolitan areas, to the exclusion of the outlands. For another, *Inc.* found, coordinating a number of carriers is bound to be complicated. The divergence of pricing schemes alone, not to mention weight strictures and territorial limitations, could throw a traffic manager into a tizzy.

Here's *Inc.*'s gathering of regional next-day services that theoretically could relay a package from Puget Sound to Tampa Bay.

COMPANY	YEARS IN BUSINESS	NUMBER OF VEHICLES	LATEST PICKUP	FOR ARRIVAL BY	TRACKING METHOD
Jet Delivery Services Portland, Ore.; 503-256-3621	15	69	6 p.m.	Portland to San Jose, 2:30 p.m.	Cellular phones; paper trail
• Started as a local courier delivering Fed Ex pieces in Portland area; in 1984, when Fed Ex decided to provide local service, Jet decided to specialize, offering just-in-time service. Weight restrictions exceed 150-pound cutoff of Fed Ex door-to-door service. Offers same-day and third-day services as well. **TERRITORY:** Vancouver to San Jose. **PRICING:** Factor of distance, size, contents. Average overnight letter to Seattle: $28; to San Francisco: $42. **MOST MEMORABLE DELIVERY:** Glen Campbell's band instruments.					
Now Courier Los Angeles; 213-252-5000; 213-671-1200 (for overnight service)	15	400	24 hrs./7 days	9 a.m.	Computerized; paper trail; radio communication
• Has arrangements with contiguous services that enable it to offer national and international service. **TERRITORY:** Sacramento to San Diego; east to Arizona. **PRICING:** By weight and distance; for example, an up-to-2-pound letter from San Francisco to L.A. is $18.50. **MOST MEMORABLE DELIVERY:** Commandeered a snowmobile to get through mountain pass when blizzard stalled truck.					
United States Cargo & Courier Columbus, Ohio; 614-491-8608	19	500	Varies by city	10 a.m. or noon	Paper trail
• Started as flower deliverer; now general delivery, with emphasis on same-day and overnight service. Will pick up, deliver anytime of day or night. **TERRITORY:** Ohio, Pennsylvania; parts of Kentucky, Indiana, Michigan, and West Virginia. **PRICING:** By weight and distance. Average overnight letter: $8.35. **MOST MEMORABLE DELIVERY:** Racehorse urine for drug test.					
L.E.D.F.O.O.T. Express Glens Falls, N.Y.; 518-798-8160	10	88	9 p.m.	9 a.m.	Computerized
• Territory expanded via arrangement with Twilight Express, an overnight service out of New York City, with which L.E.D.F.O.O.T. makes a rendezvous daily, at 1 a.m. Provides volume customers with their own built-in lockboxes for unattended drop-off and pickup. **TERRITORY:** Upper New York State and New England, to Virginia. **PRICING:** $1 a pound, with a $9 minimum; volume discounts. **MOST MEMORABLE DELIVERY:** 500 pounds of soil from a man in Albany to his brother, in Buffalo—for gardening.					
Eastern Connection Boston; 617-723-3200	9	200	10 p.m., but 4 a.m. in NYC	9 a.m.	Paper trail; computerized
• Relay system of vehicles spiderwebs the Northeast. Weight limit: 150 pounds. **TERRITORY:** Covers area from Portland, Maine, to Albany, N.Y. **PRICING:** By number and size of packages and frequency of use. A Boston-to–New York City overnight-letter pouch costs about $11. (Fed Ex would run $15.50.) **MOST MEMORABLE DEL[illegible]Y:** Case of baked beans from mayor of Boston to mayor of New York City after Boston lost the '86 World Series.					
Sonic Systems Tampa; 813-884-8900	15	70	Usually 6 p.m.	12 noon; earlier at premium	Computerized; radio communication
• More localized than most, hence makes a lot of same-day deliveries. Will do rush jobs around the clock. **TERRITORY:** Six-county area around Tampa/St. Petersburg. **PRICING:** Per mile, starting at $2.75 for up to 50 pounds. **MOST MEMORABLE DELIVERY:** Ongoing account to pick up human eyeballs from local funeral homes.					

—Researched by Susan Greco and Chris Caggiano

OFFICE EQUIPMENT

Small Is Useful

WHAT DO A 27-POUND radish and a Ricoh PF-1 have in common? Very little, except that each has been recognized by *The Guinness Book of Records.* The one that fits handily into a briefcase is cited as the world's smallest facsimile machine, and is thus a strong candidate for inclusion in a record *Inc.* itself herein attempts to compile: the world's tiniest desktop.

Ricoh's lilliputian fax measures 11 by 7 by 2 inches and weighs 5.5 pounds. It sends and receives conventional letter-size documents at standard rates and resolutions, and serves as a copier as well. When powered by battery and fitted with the appropriate interface, it can be coupled to a cellular phone or even a pay phone. Suggested retail: $1,695; Ricoh Corp., 800-637-4264.

Claim to the tiniest DOS-compatible PC on the market was made this past spring by Hewlett-Packard with the introduction of its 6.25-by-3.5-by-1-inch HP 95LX palmtop. The 11-ounce machine uses an 80C88-type processor and runs Lotus 1-2-3 and other built-in business applications. Suggested retail: $699; Hewlett-Packard, 800-443-1254.

Computers can't get much smaller, since the fingers that type on them aren't likely to shrink. On the other hand—or head, in this case—full functionality and minuscule footprint come together in the ComPCap, an 8088-microprocessor computer worn on a hat and activated by voice. By midget mirrors,

IN THE OFFICE

the computer's "monitor" is seemingly projected a foot or two in front of the user, who views it through a pair of special glasses. Since nothing physically touches a surface (the device is designed for hands-free use in manufacturing, construction, medicine, and the like), the computer takes up no space at all. Suggested retail: $3,995; Park Engineering Associates, 509-487-6462.

For a high-output, letter-quality printer, we go with the Mannesmann Tally MT735 at 11 by 9 by 2.5 inches—small enough to snuggle into a briefcase alongside our chosen fax. The 8.3-pound thermal-transfer machine produces six text pages a minute at a respectable 300 dots per inch, and is powered by a rechargeable built-in battery. Suggested retail: $1,295; Mannesmann Tally, 800-843-1347.

The entire workings of our nightstand-size office can be stored on the Disctec RHD 60, a 3.2-by-5-by-.81-inch hard-disk drive that has an ample 60 megabytes of capacity. The IBM-compatible 7-ounce drive is removable; therefore it, too, can be thrown (carefully) into our briefcase. Suggested retail: $895; Disk Technologies, 800-553-0337.

There you have our record-setting basic collection. Granted, serious contenders do exist, but as far as function as a factor of size goes, we'll stand by a computer, a hard disk, a printer, and a fax/copier that occupy a scant one and a half square feet. Plus, of course, a size 7½ cap. *—R. A. M.*

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THE INC. NETWORK

NEW QUERIES

Where do you draw the line on employee benefits? When do they threaten your company's health? For one reader, those persistent questions have reached a flash point, so he's inviting Networkers to discuss the issue. Other letters concern restaurant marketing, finding suppliers, and managing from a distance. And in Resources: if advertising hasn't worked (or costs too much), can you live by word of mouth alone?

DOING GOOD, DOING WELL

The greatest challenges facing our company right now are providing adequate medical coverage for our employees and proper facilities for the handicapped, and developing a suitable parental-leave policy. We work hard to consider what is morally right in all our business decisions, but the economic impact of these issues concerns us. How have others in business dealt with this?

Bobby Frost
CEO
Consolidated Glass & Mirror
Galax, Va.

MENU SELECTIONS

My wife and I are planning to move to northwest Wyoming and buy a restaurant there. The town we're looking at, Cody, has a population of about 8,000, off-season. From late April to August more than 750,000 tourists visit the area. Our attorney in Cody tells us there isn't a really good restaurant in town. I trained under European chefs years ago, and I've managed restaurants, so perhaps we can make a difference.

My wife and I don't have any advertising training. We'll probably start simple—flyers, radio ads, T-shirts—but how do we determine what potential patrons want?

Robert S. Haskell
Fayetteville, N.C.

A DRACHMA FOR YOUR THOUGHTS

I would like to develop a catalog of Greek artifacts. I do not want to stock all the items but would like to advertise manufacturers' products in my catalogs and drop-ship my orders. How do I find manufacturers that will work with me, and how should I structure deals with them?

Lois E. Primas
Canterbury Collections
Detroit

FROM A DISTANCE

Seven years ago my husband and I started a successful window-cleaning business in Newport Beach, Calif. When we divorced, he got the business and I moved three hours away to Santa Barbara, where I started my own cleaning service. My business is doing well, and I'm thinking about starting another company back in Newport Beach. I still have my old contacts, plus a little money and a desire for revenge. I don't want to move back, though. How difficult will it be to start a new business without being there?

Michelle Arconti
Owner
Santa Barbara Cleaning
Santa Barbara, Calif.

BIDDING FRENZY

Jim Mouyassar, president of Two Nice Guys Environmental Services, wants to start bidding on government contracts but doesn't know where to begin (Pesty Problem, July).

Mr. Mouyassar can subscribe to a publication for information on federal procurement possibilities: *Commerce Business Daily* (202-783-3238). It is fairly expensive, and he may find the same information, as well as information on state and local bids, for free at his local Small Business Development office.

Anne Lowery
Assistant Professor of Marketing
Mobile College
Mobile, Ala.

Trade organizations can help Mr. Mouyassar. He should contact the Associated Landscape Contractors of America, in Falls Church, Va. (703-241-4004), and the Professional Lawn Care Association of America, in Marietta, Ga. (404-977-5222).

Russell Adsit
General Manager
Adsit Landscape & Design
Memphis

One answer is to contact the state economic-development department, which runs a bidding list and may have a bidder-procurement system. Mr. Mouyassar should also contact state and local procurement agencies. In some states the parks division and the housing division, for example, buy separately. The key is to get on their bid lists. Also, the legal section of the newspaper may publish bids from various agencies, with instructions on how to apply for the bids.

Glen Morgan
Director
Business & Industry Support Center
Seminole Community College
Sanford, Fla.

In California there's a state contractors' guide to purchasing, available through the General Services Commission; other states have similar guides. For federal jobs, contact the General Services Administration, in Washington, D.C. (202-708-5804). Let them know what your services are and they will send you a booklet telling you what category you fall into and how to bid on projects. Be prepared to do a lot of paperwork and to wait for your money—you generally don't get up-front costs.

Gary Pietruszka
President
Woodworking by Degree
Los Angeles

CREDIT CHECK

In her old hometown, Mary H. Koppel knew her customers and could judge their creditworthiness. Now that she's relocated, she needs credit checks on

one or two new clients each month, but she can't justify the expensive subscription fee most services charge (Getting to Know You, July).

Ms. Koppel could find a regional credit bureau that will perform searches without charging a membership fee. Many bureaus offer the services she's looking for and charge on a per-report basis only.

Paul Jenney Jr.
Vice-President
Info Center Credit Bureau
Feeding Hills, Mass.

A database called NewsNet allows subscribers to access TRW credit reports for $36 a report, plus $1.40 for each minute on-line. A subscription costs $15 a month. It is located in Bryn Manor, Pa., at 800-345-1301.

Oliver C. Muoto
President
VettiCorp
Los Angeles

HOME-GROWN

Louis Lorenz is looking for someone to take over the family business, someone who will respect the traditions he's built there over 80 years. Back in May he asked Network where he could find the right buyer (We Are Family).

Perhaps Mr. Lorenz is looking too far afield for prospective buyers. If he wants someone who will nurture his business, why not look within? An employee buyout could be his answer. Banks and SBA offices can assist in structuring such a deal. Mr. Lorenz could get a good price for the business, and he could keep his knowledgeable employees and provide them with new incentives to grow the business. He could stay involved as a consultant, too. It's almost like "keeping it in the family."

Charles H. Scruggs Jr.
Program Director
Elsin Corp.
Hanover, Md.

Please send your words of advice to The* Inc. *Network, 38 Commercial Wharf, Boston, MA 02110, or call our reader response line,* 800-444-1756. *Or fax your letters to* 617-248-8090. *We'll publish the best responses and queries.

RESOURCES

ZEN AND THE ART OF ADVERTISING

I run a martial-arts school. I have tried all the traditional types of advertising—TV, radio, newspapers—and the only thing that works for me is word of mouth. Is there any way to maximize its effect?

Kevin Castelle
Owner
Hopkins Martial Arts Institute
Hopkins, Minn.

Charles Hillestad, co-owner of Queen Anne Inn, in Denver, knows the feeling. "We tried advertising and it flat out didn't work." He's found better uses for his money: generating news stories instead of ads, and turning the customers he already has into walking advertisements.

Hillestad has gotten 157 publications, TV stations, and radio stations to praise Queen Anne Inn in some way, and he's done it on his own. Yet advertising and public-relations pros we spoke to said company owners would be crazy to try PR without professional help. Hillestad disagrees. "If you've decided marketing is important and you're willing to do it, ideas will continually present themselves to you."

When Hillestad spotted a movie crew in Denver one day, he found the location assistant and told her to look him up if she needed a Victorian backdrop. When she took him up on it, Hillestad sent out a press release to the local media. He thinks it's important to devote at least one hour a day to such work. Some of that is spent at the library, where he researches publications in standard references that index by subject—the *Gale Directory of Publications and Broadcast Media* and *Bacon's Publicity Checker* are two. He doesn't look just for travel magazines; instead, he looks for an angle. "We've been in business publications, like *Inc.* ['Rooms with a View,' May 1988], health magazines for our nonsmoking policies, art books because we did some trompe l'oeil." Recently, a college business textbook featured Queen Anne as an example of effective marketing. So far, five people who have used the textbook have booked rooms.

Hillestad's loyal customers also work hard to promote Queen Anne. Such loyalty comes from making their stay memorable. For instance, "The Queen Anne University" awards a tongue-in-cheek "master of romance" to guests who stay in 8 of the 10 rooms at the inn. "Guests remember it," but, Hillestad says, in addition "you can improve your odds by reminding them that you could use their referral, and thanking them for it."

In our April 1991 feature on Intuit, the makers of the briskly selling software Quicken ("Customer Service: The Last Word"), president Scott Cook explained his marketing success: "We have hundreds of thousands of salespeople. They're our customers." He keeps them selling by providing "legendary" customer service in an industry where that's rare. Every company has "an opportunity to amaze the customer on the first impression," he insists. Intuit does that by making its software incredibly easy to install.

Cook recommends you use a similar approach. "When I was younger, I was intrigued by martial arts, but I didn't sign up, because I didn't want the embarrassment of losing interest after a lesson." You could set your academy apart by setting up a get-acquainted program that people can attend without making a commitment. Then, Cook says, "take advantage of the first lesson, when the customer is feeling most ill at ease, and turn that into a wonderful experience. Give each new customer special attention, and call afterward to ask how it went."

Such special attention has paid off for Intuit. "We're so much better than what they expect that it takes customers by surprise," Cook boasts. "When you do that, you give them something to tell their friends about."

—Michael P. Cronin

BUSINESS FOR SALE
MAINE MODEL-SHIP MAKER

THE BUSINESS Toys for grown-ups: premium wooden-model kits for museum-quality, historically accurate replicas of tall sailing ships, Civil War ironclads, and more. Kits retailing from $25 to $350 are manufactured in a 150-year-old schoolhouse in coastal Maine; direct mail (40-page color catalog) generates 65% of revenues. Company employs six unskilled laborers full-time; role of current owner (who's selling in order to attend to two other businesses) has been primarily financial.

FINANCIAL SUMMARY

	1990*	1991*	1992**
Gross revenues	$222,000	$269,000	$282,000
Net profit before taxes, depreciation, and owner compensation	$47,000	$55,000	$74,000

* fiscal year ending June 30 ** projected

PRICE $365,000

OUTLOOK Exact figures don't exist for this segment of the model industry, but insiders estimate its size to be a stable $4 million to $5 million, putting this company's market share as high as 7%. Chalk it up to experience: this is the oldest model company in the United States, and it's renowned for quality (40 of its models are in the Smithsonian). Still, pleasure, not profit, has traditionally been the motive for owning companies like this one.

PRICE RATIONALE Price includes $125,000 worth of inventory and accounts receivable, and $150,000 worth of proprietary molds and patterns that create a barrier to entry in this mini-industry. The price is aggressive: the seller wants $125,000 down, and the debt remaining on a five-times-earnings sale price would be tough to service. Experts say a multiple of three would be more reasonable.

PROS Established reputation, timeless product line, and competent manufacturing operation would enable new owner to concentrate on marketing (and a retail showroom?). Plus, the toys are nice.

CONS "Stable" might mean "stagnant." Unlike their lower-priced, little- or no-assembly-required plastic and radio-controlled relations, these precious frigates aren't likely to see growing demand. *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**
The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Donald Giancola, Country Business Inc., 207-773-1745.

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